



Student Financial Assistance

THE U.S. Department of
EDUCATION



Consolidation - What Is It And How Does It Work?



Today's agenda

- I. Consolidation - the basics**
- II. Direct/FFEL - specifics**
- III. Past, Present, Future**
- V. Questions and Answers**

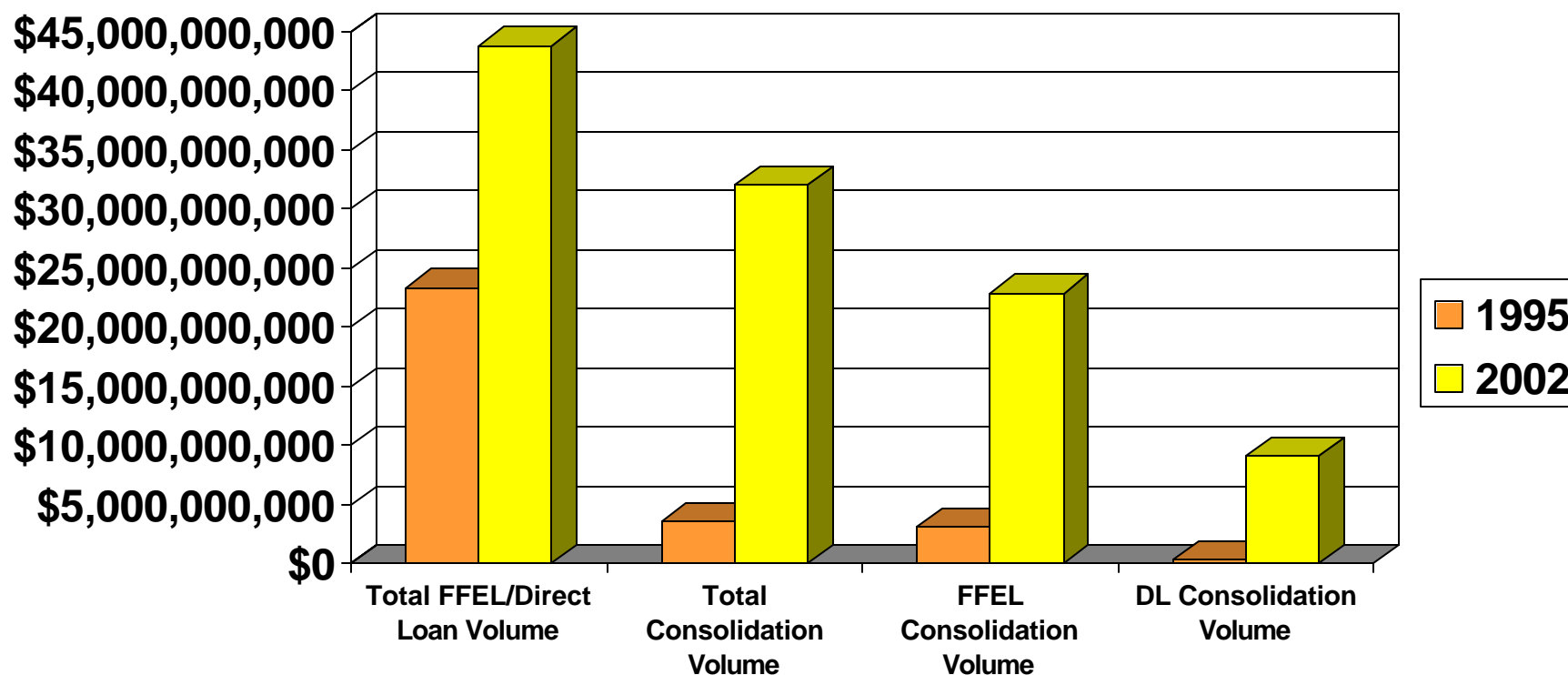
Consolidation in a nutshell

A tool to help borrowers manage their student loan debt successfully.



Meeting today's need

Total Annual Dollar Volume



Meeting today's need

FFEL and Direct Loan Trends 1995 - 2002

- Average loan size
 - ✓ Increased \$400 from 1995 to 2002
 - ✓ Greatest growth in Unsubsidized and PLUS loans
 - ✓ Subsidized Loan growth remains constant
- Average number of loans borrowed per year
 - Consistent - 1.2 loans per borrower annually

Meeting today's need

Typical Consolidation Borrower

- Average age 34
- Average debt \$21,871
- Average # of loans 4

When is consolidation a good choice?

- Multiple loan holders
- Large debt
- Trouble making payments
- Defaulted or delinquent
- Regain Title IV eligibility if in default





Other options to consider

Consolidation is not for everyone

- Rehabilitation
- Partial consolidation
- Deferment/Forbearance



Consolidation Benefits

- One lender/one monthly payment
- Fixed weighted average interest rate
 - ✓ Grace period interest rate savings
 - ✓ Capped at 8.25% (PLUS at 9%)
- No origination fees
- Flexible repayment options
- Second chance for defaulted borrowers
- No minimum or maximum amount



Fixed Weighted Average Interest Rate Advantage

Repayment Plan	Term (in months)	Monthly Payment - variable rate Assuming 8% avg. rate	Monthly payment - fixed rate 4% fixed weighted avg.	Saving over term of loan
Standard	120	\$243	\$202	\$4,820
Extended	240	167	121	11,062
Graduated	240	133 7% increase (up to \$240 month) every 2 yrs. based on \$20,000 debt	101	13,683
Income Based	243/192	115 adjusted annually based on income	115	15,595

Example based on 2 Direct Loans and 2 FFEL Loans with a combined total of \$20,000

Your Role in Consolidation

Borrower Counseling:

- Provide information and options to borrower
- Help compare options, benefits, and programs





Your Role in Consolidation

Perkins Loan Schools

- Complete verification certificates
- Timely payoff of borrower loans
- Prompt over and underpayment adjustments
- Advise not to include if eligible for forgiveness

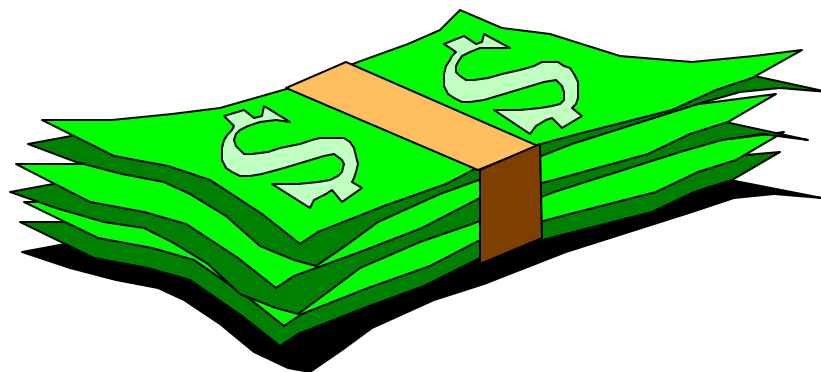


Eligibility Factors

- Borrower type
 - ✓ Student Borrowers
 - ✓ Parents
 - ✓ Married Borrowers
- Loan status
 - ✓ Out of school
(Includes at least one FFEL or Direct Loan)
 - ✓ Defaulted
(Make satisfactory repayment arrangements - 3 consecutive payments)

Repayment Options

- **Standard**
 - ✓ 10 yr. repayment period
 - ✓ \$50 min. monthly fixed payment
- **Extended**
 - ✓ 12-30 yr repayment period
 - ✓ \$50 min. monthly fixed payment
- **Graduated**
 - ✓ 12-30 yr. repayment period
 - ✓ Monthly payments increase every 2 yrs.
- **Income Based**
 - ✓ Amount and term based on debt and income





Direct Consolidation Eligibility In-School

Direct Consolidation includes at least one FFEL and/or Direct Loan in an in-school period.

- ✓ **FFEL Loan(s) - must be attending a Direct Loan School**





Direct Consolidation Eligibility In-School

Example: In-School/ In-Grace Consolidation Interest Savings

<u>Loan Term</u>	<u>SAVINGS</u>
10 years	\$600
12 years	\$720
15 years	\$900
25 years	\$1,500

Savings based on 4 Direct/FFEL with a combined balance of \$20,000 brought into the weighted average calculation at the lower in-school rate and fixed for the life of the loan.



Direct Consolidation Income Contingent Repayment Plan

- Payments based on:
 - ✓ Annual income (AGI)
 - ✓ Family size
 - ✓ Total debt
- Monthly payment changes annually as income changes



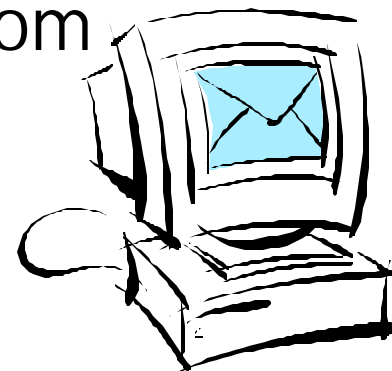
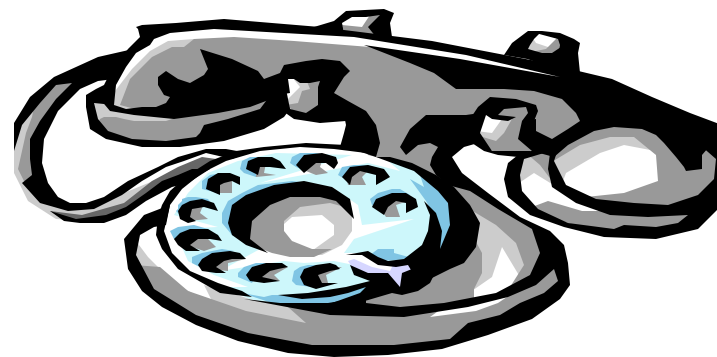
Direct Consolidation Electronic Tools

loanconsolidation.ed.gov

- On-line application/promissory note
- On-line repayment calculator
- Application status look up
- FAQs, application materials
- Electronic funds transfer (EFT)
- Electronic signature on application
- Electronic Verification Certification

Direct Consolidation How Can We Help You?

- 1-800-557-7392
- TDD 800-557-7395
- loan_consolidation@mail.eds.com





Consolidation Loan Program

- **Consolidated Omnibus Reconciliation Act of 1985 (COBRA) Originally Authorized Consolidation Loan Program**
- **HEA of 1986 and Implementing Regulations Provided Further Guidance**
- **Many Guarantors Slow to Implement and Enroll Lenders**



Consolidation – 1986

HEA Amendments of 1986

- Combine Loans with Multiple Holders into a Single Loan**
- Extend Repayment Term Based on Loan Balance**
- Rate = Greater of 9% or the Weighted Average Rounded up to the Nearest Whole Percent**
- Minimum Balance of \$5,000**



Consolidation – 1993

HEA Amendments of 1992

- **Variable Rate PLUS and Direct Loans Eligible for Consolidation**
- **Add Loans for a Period of 180 Days**
- **Married Couples Can Consolidate**
- **Minimum Balance Raised to \$7,500**
- **Defaulted Borrowers Can Consolidate after Making Satisfactory Arrangements**
- **Eligible for Interest Subsidy while Deferred**



Consolidation – 1994

Student Loan Reform Act of 1993

- Subsidy is Available only if All Underlying Loans are Subsidized
- Requires Consolidating Lenders to Pay 50 Basis Points to Make Consolidation Loans and 105 Basis Points Annually to Hold Them
- Removes Minimum Balance
- **Establishes Direct Consolidation Program**
 - Income Contingent Repayment



Consolidation – 1994

Student Loan Reform Act – Continued

- Removed 9% Minimum Rate Requirement**
- Requires Borrower to Certify He/She Could Not Obtain Income-Sensitive Repayment Agreement from Current Holder**



Consolidation – 1997

Emergency Student Loan Consolidation Act '97

- Direct Loans Eligible for FFELP Consolidation**
- For Period 11/13/97 through 9/30/98, Rate is Identical to Stafford Rate (T-Bill Plus 3.10, not to Exceed 8.25%)**
- Subsidy Paid during Periods of Deferment on Portion of Consolidation Loan made up of Underlying Subsidized Loans**
- Non-Discrimination Language**



Consolidation – 1998

Higher Education Amendments of 1998

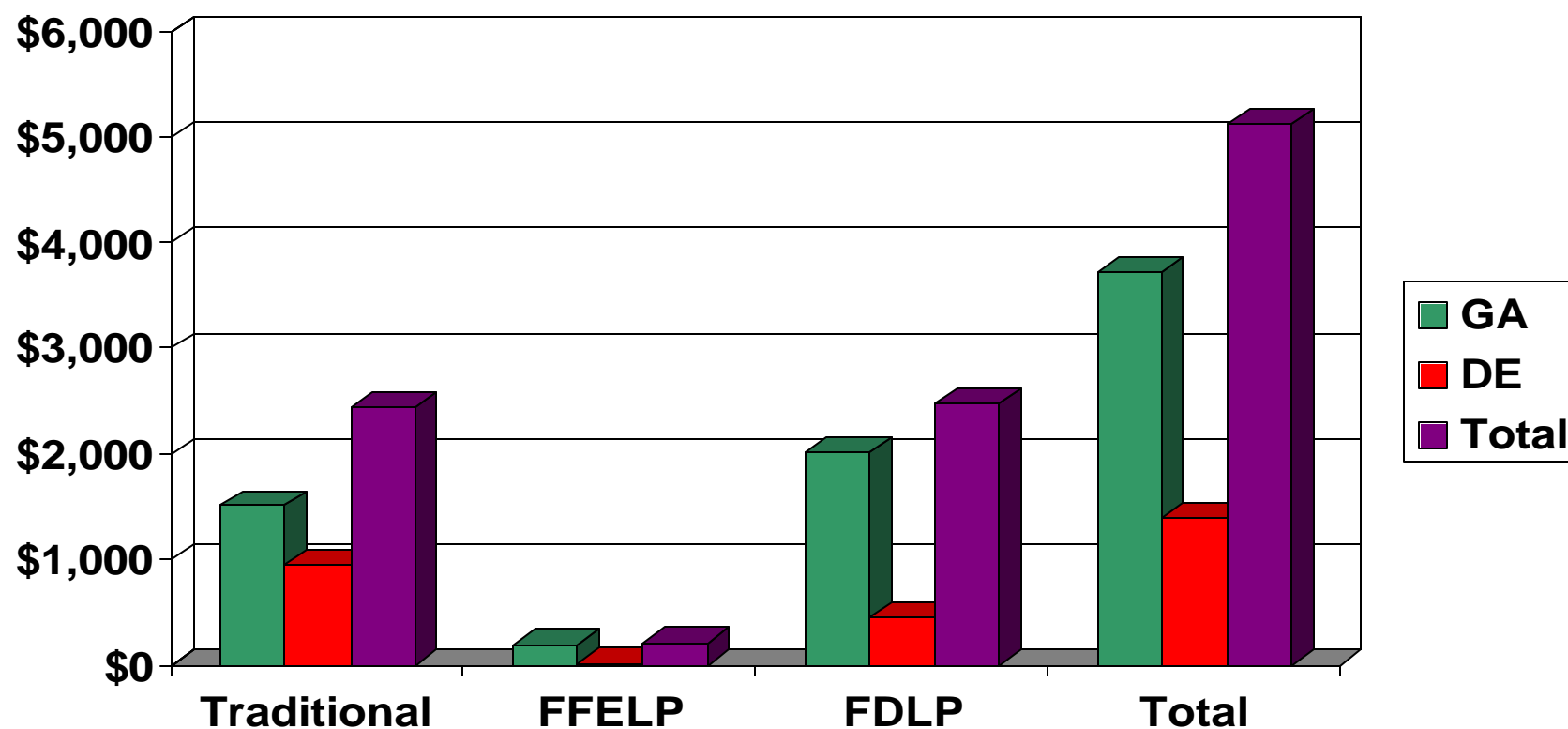
- Rate is Back to Fixed and is Weighted Average Rounded up to the Nearest 1/8 Percent, not to Exceed 8.25%**
- Can Consolidate a Consolidation Loan with New Loans**
- Made Permanent Many of the Changes Brought about after Last Reauthorization**



Consolidation – 2002

- **Rate at All-Time Low (as low as 3.5%)**
- **FFELP and FDLP Consolidation Volume has Grown from \$5.4 Billion to \$10.5 Billion During the Period FFY97-FFY00**
- **Consolidation of Defaulted Loans Totaled \$5.1 billion for FFY01, Representing over 52% of Total Collections**

FFY01 Default Recoveries





Impact of Current Environment

- Initial Intent of Loan Consolidation out the Window – Now a Refinance Tool**
- Extended Repayment at Low, Fixed Interest Rates Very Costly to the Taxpayer**
- Traditional Default Collection Giving Way to Consolidation/Refinancing**



Impact of Current Environment

- Consolidation Loan Companies**
- Students and Schools Complain of Rampant Marketing of Loan Consolidation**
- “Traditional” Lenders See Raiding of Stafford Portfolios**
- Single Holder Rule Controversy**



“Single Holder Rule”

- FFELP borrowers with one loan holder must first contact that holder about consolidation and may only “shop” if their holder either a) does not offer consolidation or b) does not offer Federal Consolidation with ISR
- This is buried in the promissory note
- FFELP borrowers with at least two holders can “shop till they drop” (two holders does not mean Perkins)

What about the borrowers?

- Borrowers consolidate:
 - For convenience
 - For cash flow (some monthly only, others total cost)
 - To renew deferments
- The Single Holder Rule and solicitations
 - Borrowers are an easy target (impulse buying)
 - Incomplete information is just as dangerous as inaccurate information
- Consumer protections of some kind need to be addressed in Reauthorization
- Borrower education (workshops, call centers)

What about the borrowers?

- Borrowers consolidate:
 - For convenience
 - For cash flow (some monthly only, others total cost)
 - To renew deferments
- The Single Holder Rule and solicitations
 - Borrowers are an easy target (impulse buying)
 - Incomplete information is just as dangerous as inaccurate information
- Consumer protections of some kind need to be addressed in Reauthorization
- Borrower education (workshops, call centers)

What about the borrowers?

- Borrowers consolidate:
 - For convenience
 - For cash flow (some monthly only, others total cost)
 - To renew deferments
- The Single Holder Rule and solicitations
 - Borrowers are an easy target (impulse buying)
 - Incomplete information is just as dangerous as inaccurate information
- Consumer protections of some kind need to be addressed in Reauthorization
- Borrower education (workshops, call centers)



Shared Responsibility

- **Borrowers are responsible for doing their homework, keeping good records, and not trying to buck the system**
- **Financial aid professionals are responsible for educating their borrowers (and their staff members) and for holding the lending community accountable**
- **Lending community is responsible for the balancing act of all time**



What Does The Future Hold?

- Significant Changes Generally the Result of Reauthorization – Next Reauthorization Just Around the Corner**
- Do We Need to Change the Consolidation Loan Program? If so, How?**



Possible Reauthorization Changes

Pre-Default

- Change Stafford Repayment Terms**
- Change Consolidation Interest Rate Formula to Variable, Capped at 8.25%**
- Eliminate Single Holder Rule but Add Disclosure Requirement and Marketing Restrictions**



Possible Reauthorization Changes

Post-Default

- **Increase # of Payments Required to Consolidate a Defaulted Loan**
- **Remove ICR and Income Sensitive Option to “Instantly” Consolidate out of Default**
- **Decrease # of Payments Required to Achieve Loan Rehabilitation**



QUESTIONS?



Student Financial Assistance

THE U.S. Department of
EDUCATION